COURSE LEARNING OUTCOMES

At the end of this course the students will be able to

CLO 2 Assess the concept of Redemption of shares, debentures, underwriting of shares and underwriter’s liability.

Preview of last class

01 **Meaning of Underwriting**

02

- **Types of Underwriting**

03 **Rate of Underwriting**

Comm

04

- **Determining Liability of Underwriters**

Topics Covered

- **Model Problems with solution in Complete Underwriting**
- **Model Problems with solution in Partial Underwriting**

COMPLETE & PARTIAL UNDERWRITING PROBLEMS - LECTURE VIDEO

SOURCE

CLICK

https://www.youtube.com/watch?v=0roxAzaSnJw

https://www.youtube.com/watch?v=jK4KNnvFnMU&t=788s

- by Mr. Saheb Academy, Educational Channel, IPCC.

SOURCE : Animation

- by Mrs. Kauser Wise, Youtube Pedogogy, Chennai

CLICK

https://www.youtube.com/watch?v=QSLXdWJgtlQ

Complete Underwriting Model Problem - 1

1) A company issues 50,000 shares of Rs.10 each at par. The whole issue has been underwritten by X & Co. for a commission of 4%. The company received applications only for 47,000 shares. All the applications were accepted. Give the journal entries to record the above transactions.

Complete underwriting - Solution

DATE	PARTICULARS	LF	AMOUNT (DR)	AMOUNT (CR)
	Bank A/c Dr.		4,70,000	
	To Equity Share Capital A/c			4,70,000
	(being application money of 47000 shares@ 10each received)			
	X & Co. A/c Dr.		30,000	
	To Equity Share Capital			30,000
	(being the allotment of 3000 shares of 10each not taken up by public)			
	Comm. on issue of shares A/c Dr.		20,000	
	To X & Co. A/c			20,000
	(being commission due to X &Co. @4% on 50000 shares of 10 each)			
	Bank A/c Dr.		10,000	
	To X & Co.			10,000
	(being balance due from X & Co. received)			

Complete underwriting Model Problem - 2

2) A Public limited company, with a capital of Rs.10,00,000divided into equity shares of Rs.10 each, places its entire issue in the market, and the whole issue has been underwritten as follows:

Paterson & Co.	**30,000 shares**	**Prince & Co.**	**15,000 shares**
Singh & Co.	35,000 shares	Talukdar & Co.	2,000 shares
Mazumdar Co.	10,000 shares	Bannerjee & Co.	8,000 shares

All marked forms are to go in relief of the liability of the underwriters whose name they bear. The applications received on the forms marked by the underwriters are:

Complete underwriting Model Problem - 2

Contd.,

Paterson & Co.	25,000 shares	Prince & Co.	1,000 shares
Singh & Co.	23,500 shares	Talukdar & Co.	2,000 shares
Mazumdar Co.	6,500 shares	Bannerjee & Co.	7,000 shares

application forms. Calculate the liability of the individual underwriters. In terms of the underwriting agreement, the relevant proportion is to be ascertained not in case of the original liability ratios but after giving credit for marked forms.

Complete underwriting - Solution

Statement showing liability of underwriters

	Total	Paterson & Co.	Singh & Co.	Mazumdar Co.	Prince & Co.	Talukdar & Co.	Bannerjee & Co.
Gross Liability	1,00,000	30,000	35,000	10,000	15,000	2,000	8,000
Less: Marked Applications	65,000	25,000	23,500	6,500	1,000	2,000	7,000
Balance	35,000	5,000	11,500	3,500	14,000	-	1,000
Less: Unmarked Applications (in the ratio of gross liability)	20,000	2,857	6,572	2,000	8,000	-	571
	15,000	**2,143**	**4,928**	**1,500**	**6,000**		**429**
Net Liability							

Partial underwriting Model Problem - 3

3) A company issued 10,000 shares of which 75% was underwritten by an underwriter. Applications for 6,000 shares were received out of which 4,800 shares were marked by the underwriter. Determine the net liability of the underwriter.

Solution :

Gross Liability = 75% of 10,000 = 7,500 shares

Less: Marked Applications = 4,800 shares

Net Liability = 2,700 shares

Partial underwriting Model Problem - 4

4) X Limited issue 10,000 equity shares of Rs.10 each. The issue was underwritten as follows: A - 30%; B – 30%; C – 20%. However, the company received applications for 8,000 shares only. Determine the liability of the respective underwriters.

Solution:

Note: Underwriting is only for 80% of shares by the outsiders, so for rest, i.e. 20%

the company should be treated as the underwriter.

Partial underwriting - Solution

Statement showing the liability of underwriters

	A	B	C	Company
Total Liability	30%	30%	20%	20%
Total Shares	3,000	3,000	2,000	2,000
Less: Shares applied and allotted	2,400	2,400	1,600	1,600
Liability of underwriters	600	600	400	400

Alternatively the liability of the respective underwriters can also be determined in the following manner:

Shares issued	10,000
Less: Applications received	8,000

Unsubscribed applications	2,000

Partial underwriting - Solution

A ‘s Liability = 30% of 2000 shares = 600 shares

B’s Liability = 30% of 2000 shares = 600 shares

C’s Liability = 20% of 2000 shares = 400 shares

Total Liability of A, B and C = 600 + 600 + 400 = 1,600 shares.

This represents 80% of the total issue underwritten.

The balance 400 shares (2000 – 1600) representing 20% of the issue not underwritten will remain as unissued.

Partial underwriting Model Problem – 5

5) Libra Ltd. came up with an issue of 20,00,000 equity shares of Rs. 10 each at par. 5,00,000 shares were issued to the promoters and the balance to the public was underwritten by three underwriters—Anand, Vijay and Ashoke equally, with firm underwriting of 50,000 shares each.

Subscriptions totaled 12,97,000 shares including the marked forms which were:

Anand 4,25,000 shares; Vijay 4,50,000 shares; Ashoke 3,50,000 shares.

Partial underwriting Model Problem – 5

The underwriters had applied for shares covered by firm underwriting. The amount payable on application and allotment were Rs. 2.50 and Rs. 2, respectively. The agreed commission was 2.5%.

Pass necessary journal entries for:

(a) The allotment of shares to the underwriters;

(b) The commission due to each of them; and

(c) The net cash paid and/or received.

Note: Unmarked applications are to be credited to the underwriters equally.

Partial underwriting - Solution

Solution

In the books of Libra Ltd.
Statement showing Liability of the Underwriters

Name of the Underwriters:	Anand	Vijay	Ashoke	Total
	Shares	Shares	Shares	Shares
No. of shares underwritten	5,00,000	5,00,000	5,00,000	15,00,000
Less: Marked Application	4,25,000	4,50,000	3,50,000	12,25,000
	75,000	50,000	1,50,000	2,75,000
	Shares	Shares	Shares	Shares
Less: Firm Application	50,000	50,000	50,000	1,50,000
	25,000	—	1,00,000	1,25,000
Less: Unmarked Applications (equally) (12,97,000 – 12,25,000)	36,000	—	36,000	72,000
	(–) 11,000	—	64,000	53,000
Less: Anand's Surplus to Ashoke	11,000	—	(–) 11,000	—
Net Liability	—	—	53,000	53,000
Add: Firm Underwriting	50,000	50,000	50,000	
∴ Gross Liability	50,000	50,000	1,03,000	

Partial underwriting - Solution

Journal

Date	Particulars	L.F.	Debit	Credit
			Rs.	Rs.
?	Bank A/c Dr.		3,75,000	
	To Share Application A/c			3,75,000
	(Amount received from the underwriters for 50,000 shares each @ Rs. 2.50.)			
?	Share Application A/c Dr.		3,75,000	
	To Share Capital A/c			3,75,000
	(Share application money of 1,50,000 shares @ Rs. 2.50 transferred to Share Capital A/c)			
?	Anand A/c Dr.		1,00,000	
	Vijay A/c Dr.		1,00,000	
	Ashoke A/c Dr.		3,38,500	
	To Equity Share Capital A/c			5,38,500
	(Allotment of shares to Anand, Vijay and Ashoke of 50,000, 50,000, and 1,03,000, respectively, transferred to Share Capital.)			
?	Underwriting Commission A/c Dr.		3,75,000	
	To Anand A/c			1,25,000
	" Vijoy A/c			1,25,000
	" Ashoke A/c			1,25,000
	(Amount payable to underwriters for their commission @ 2.5%)			
?	Bank A/c Dr.		1,13,500	
	To Ashoke A/c			1,13,500
	(Amount received from Ashoke after adjusting the underwriting commission.)			
?	Anand A/c Dr.		25,000	
	Vijoy A/c Dr.		25,000	
	To Bank A/c			50,000
	(Amount paid to the underwriters after adjusting the payment on their holdings.)			

Partial underwriting - Solution

Statement showing the Amount to be Received/Paid by the Underwriters

Name of the Underwriters:	Anand	Vijay	Ashoke
Underwriters' liability (calculated as above)	50,000	50,000	1,03,000
	Rs.	Rs.	Rs.
Amount to be paid by them @ Rs.4.50 per share =	2,25,000	2,25,000	4,63,500
Less: Amount paid on firm applications @ Rs. 2.50 on 50,000 shares	1,25,000	1,25,000	1,25,000
	1,00,000	1,00,000	3,38,500
Less: Commission to be received on underwriting shares @ 2.5% on 50,000 shares each	1,25,000	1,25,000	1,25,000
Amount Paid	25,000	25,000	—
Amount Received	—	—	1,13,500

Test Your Knowledge

LINK

https://docs.google.com/document/d/1OSZVBns04sASUeJvNGY9Vqth9TbS6TzYhEFkqqA7tUo/edit?usp=sharing

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THANK YOU